Revenue Committee

Meeting Summary

July 20, 1999

ADOPTED (August 17, 1999)

Committee members present: Acting Chair Bob Helsell, Councilmember Dave Earling, Jim Fitzgerald, Larry Pursley, Senator George Sellar, Commissioner Judy Wilson

Committee members not present: Roger Dormaier, Governor Booth Gardner, Representative Ed Murray, Neil Peterson, Mike Roberts, Skip Rowley

Other Commissioners present: Port Commissioner Ted Bottiger

The Revenue Committee convened at 8:35 am at the Sea-Tac Holiday Inn. Acting Chairman Bob Helsell asked for a motion to adopt the June 15 meeting summary. A motion was made and seconded and the meeting summary was approved.

During the public comment period, the following speakers addressed the committee:
Randy Boss of the Gig Harbor Peninsula and representing Citizens Against Tolls, said he had been following the Public Private Initiatives (PPI) program since its beginnings. He said the public was outraged that private companies wanted to take an existing public corridor and impose tolls on it. He said 30,000 signatures in opposition to the Tacoma Narrows Bridge project had been submitted and that litigation has been filed to stop the process.

Don Williams, citizen of Gig Harbor, said that in the advisory vote, 83% of the citizens closest to the bridge had voted against the project. He said that the original public toll authority was folded into the state Transportation Commission and that WSDOT could act as a public toll authority. Just as with the PPI program, the Legislature would have to approve the project and the sale of the bonds. Tolls can be an effective mechanism but must be publicly administered.

Henry Paulman, of Tolls Represent Unfair State Taxes, said he was involved in the defeat of the SR520 PPI project. He stated that there is legislation pending to bring tolling authority under the Washington Utilities and Transportation Commission. He asked the committee to keep in mind that Washington has the 8th highest taxes per capita in the nation. He said the performance of WSDOT should be reviewed for efficiencies as only 47 miles of new roads have been built in the last 5 years despite billions of dollars spent.

Mayor Pro Tem Bob Smith of Sequim addressed the Committee and presented a letter from the Kitsap County Commission opposing tolls on the Hood Canal Bridge. He restated his view that tolls are inappropriate for a preservation project.

Presentation on Non-Traditional Funding Sources

Jay Reich of Preston Gates & Ellis law firm was introduced as the presenter. Mr. Reich opened by saying he wished there was a simple answer to the transportation funding issues and that I-695 was evidence that citizens are opposed to paying more. He said he intended to speak about five kinds of non-traditional funding strategies:

- Local Improvement Districts/Road Improvement Districts (LID/RID)
- Transportation Benefit Districts (TBD)
- Tax Increment Financing
- Toll Roads/Transportation Pricing
- 63-20 Projects and IDBs

These are strategies that do not rely on state gas taxes, MVET, sales or general property taxes. Rather, they involve mechanisms that require partnerships with the private sector, voluntary agreements to be taxed and creative uses of debt financing. These non-traditional mechanisms share a number of characteristics: they raise money on a project-by-project basis; those who benefit, pay; and they rely on debt financing since pay-as-you-go is not feasible, thus creating inter-generational equity. He noted that in Washington there has been a history of opposition to these kinds of mechanisms.

Local Improvement Districts/Road Improvement Districts (LID/RID). This is a geographic area within defined boundaries and could involve a parking structure, a road widening or other improvement. Property owners within the boundaries are assessed the actual costs of the improvements. This is an assessment, not a tax, because it is not uniform on all properties and is largely voluntary. Property values are appraised before and after the improvement and the assessment must be less than the benefit or actual increase in value. This mechanism has been effective historically, usually for small projects. It can also be used with a single owner or developer to provide access to public financing. Problems are that it is procedure-laden and time consuming.

Transportation Benefit Districts (TBD). Similar to LIDs, this is a defined geographic boundary, however it creates an actual taxing district that requires a vote of its citizens to impose a tax. A similar mechanism is used for park and recreation districts and library districts. It could be used with taxes imposed on property or with a local option gas tax and can issue bonds.

Tax Increment Financing. Again similar to LIDs, this creates a defined geographic area to finance a public improvement. It uses neither an assessment nor a tax, but rather uses the increased revenue that results from economic development. That increased revenue is used to pay off bonds that are issued. Problems are that it uses the property tax which is unpopular, but more significant is a constitutional issue that says that all state property tax must go to the school fund, making it impossible to use the state portion of the tax. Alternative models could be developed using the sales tax or the B&O tax. This mechanism would only make sense for a facility that would clearly increase revenues, so for example it would not work for a sewage treatment plant.

Toll Roads/Transportation Pricing. In response to some of the previous speakers, Mr. Reich said the purpose of the PPI program was to shift risk to the private sector and to speed up projects. The issue of whether tolls should be collected by a public or a private entity was a philosophical one. There are arguments to be made for leaving the pricing levels to the marketplace. Technologies are now available that allow efficient collection of tolls on roads or bridges.

63-20 Projects and IDBs. Under the 63-20 mechanism a non-profit is created that can use tax-exempt financing. The facility ownership eventually reverts to the government. A non-traditional funding source can be used such as private funding. The benefit is that the debt is the responsibility of the non-profit entity so is not subject to the governmental debt limit. Similarly industrial development bonds (IDBs) can be issued through the state industrial development corporation and title to the facility is negotiable.

Mr. Reich disclosed that Bechtel, the contractor on the Tacoma Narrows Bridge, was his client. He went on to summarize the issues and benefits with some of these sources. The LID uses all the bells and whistles of a traditional public works project, including prevailing wages and public procurement processes. IDBs that use private dollars are not subject to these public provisions. The issue with 63-20 is that a repayment revenue source must be identified. It is not typically used on transportation projects, although sometimes it is used on parking garages. An audience member noted that RIDs are not used often because of implementation issues. Snohomish County successfully used the RID to create a Master Road Improvement Program at Smokey Point.

A question was asked about the Constitutional provision limiting the state's debt and the effect on bond ratings. The answer given was that these mechanisms do not rely on the full faith and credit of the state or local government as they do not use general purpose taxes.

Presentation on Motor Vehicle Excise Tax

Eric Meale, Manager of the Economics Branch of WSDOT was introduced. He began his overview of the MVET by saying that it has been extensively debated in the Legislature which has wanted to reduce it and transfer it from the general fund to transportation purposes. The MVET is a 2.2% tax on the vehicle value and is depreciated down to 10% over 12 years. The MVET is projected to generate $1.5 billion in 99-01 biennium and is applied to 5.3 million vehicles.

As part of Referendum 49 which was passed by the voters last year, the MVET was reduced by $30, the depreciation schedule was reduced and funds were redistributed with $1.9 billion earmarked for the Motor Vehicle Fund to pay debt service on bonds. Prior to R-49, MVET was allocated 54% to transportation and 45% to the general fund and to cities and counties. After R-49, it was allocated

75% to transportation. A total of $400 million was transferred from the general fund, with $260 million going to the Transportation Fund and $160 million to the Motor Vehicle Fund to pay off bonds.

Initiative 695, which was recently certified for the ballot, repeals the MVET tax rate, vehicle valuation schedules and the revenue distribution. Further, it increases the $23.75 registration fee to $30. Finally, it requires voter approval for any future tax increase.

Discussion of Initiative 695

Jay Reich offered a number of observations on I-695. With $1.2 billion in revenues going away, he wondered what would happen to transit. He said that what was even more insidious was the requirement for voter approval of all tax increases or monetary charges. When a government entity issues LTGO or Councilmanic bonds, that is a promise to bondholders to raise taxes as needed to pay debt service. These non-voted bonds could not be issued any more and investors would not invest in Washington State. Similarly, water and sewer districts would not be able to raise rates to meet debt service obligations. Another issue is that the State Constitution says that it is not permissible to have two subjects in one bill and it is likely that provision would apply to an initiative.

It was asked whether the initiative would impact the credit of the state. It was answered that if you reduce the state's revenues by $1.2 billion, you would certainly hamstring the state's ability to issue debt. A committee member asked how I-695 would affect the Public Private Initiatives program. Mr. Reich replied that it would have to be determined if a toll is a "monetary charge," but it would certainly put a cloud over the program. It was also asked whether if a port negotiated terms and conditions with a shipper, those rates would have to be submitted to the voters. The answer given was that the only exemptions in the initiative are tuition and criminal fines.

Mr. Smith of Sequim noted that the transit agency that he serves on, Clallam Transit, would lose 46% of its revenue. It was commented that it was hard to understand where the replacement revenue would come from. It was noted that Sound Transit's 0.3% MVET is locally authorized and would not be repealed, although the Department of Licensing's collection mechanism would go away. It is unclear whether the MVET match of local transit agencies would be repealed too. The repayment funds for R-49 bonds would disappear so many R-49 projects are on hold.

A committee member moved a resolution urging the Board of the Blue Ribbon Commission to take a position opposing I-695. The motion was seconded. Discussion ensued and members questioned whether as a government appointed body the Commission could take such a position. The Committee tabled the motion until next month's meeting and asked staff to request a legal opinion on the question.

Committee Discussion of Transportation Funding Overview

The committee turned to the Draft Issue Paper 1, *Overview of Transportation Funding in Washington*. Committee consultant Kathy Elias outlined the current funding framework: numerous funding "buckets" exist, many of which are dedicated or restricted; the current system distributes funds by jurisdiction, mode and program; and different fund sources have different economic characteristics. Kathy went on to say that the issues with the current framework are a tendency to compartmentalized planning, often a lack of agreement on priorities among adjacent jurisdictions, inability to use funds in the most efficient ways or in areas of highest priority need, leading citizens to feel no one is accountable. Finally, the varying economic characteristics lead to equity issues.

A number of committee members made comments at this juncture: a committee member felt that insufficient funds in the transportation system should be a fundamental finding because it leads to many of the system characteristics just outlined. Another member commented that alternative funding solutions might make the system even more convoluted, and more difficult for the public to understand. It was also noted that the lack of sufficient funds made the funding buckets more splintered.

Kathy then outlined the goals a new funding framework might achieve: simplification through a smaller number of buckets, greater flexibility in fund use, improved coordination among jurisdictions and modes, agreement on basic principles such as funding maintenance first, and greater equity in the use of revenue sources.

Potential new funding framework options were outlined next. First, was a user-based framework, meaning the existing general purpose taxes used for transportation would be replaced with user fees such as the gas tax, MVET, mileage charges or tolls. Discussion followed. A committee member asked if TIB and CRAB were put in one funding "bucket," who would distribute it? Other members talked about states that have reduced the funding buckets to a small number - Missouri and Michigan were mentioned - and asked that committee staff research the success of these undertakings. A member suggested that the funding buckets could be reduced to three – state, local, and regional. Another member asked what was the result hoped for in reducing funding buckets -- answers offered included flexibility of funding and simplification.

Kathy continued outlining the other potential new funding framework options. The second option was a function-based or "state ISTEA" framework. Modeled after the federal ISTEA legislation, this framework would allocate funds broadly to flexible purposes; for example, preservation and maintenance, and increased mobility. The third option was a cluster-based framework. This framework would fund clusters of facilities that form a single inter-related set of transportation functions, e.g., a major regional arterial. The fourth option was a new regional planning or funding body. This framework would grant funding authority to existing regional planning bodies or to a new regional body. Last was a set of new system-wide investment principles that would be developed by a broad-based stakeholder process.

It was offered that funding preservation and maintenance first would reduce flexibility and reduce funds available for building new projects. A member of the public said a preservation and maintenance focus would disregard needed funds for concurrency requirements. Another member said that user fees such as congestion pricing and tolls would assure the defeat of any proposal.

Discussion turned to Initiative 695 and how it would alter the funding landscape if it passed in November. A mileage charge per vehicle was suggested as an alternative to the MVET. There was discussion about how such a charge would be collected. An odometer check approach would invite cheating. It was suggested that only electronic collection would be feasible.

The discussion then turned to how much change in the existing funding system the committee was willing to embrace; for example, should potential new frameworks apply to new revenues only? One member felt that significant change was needed and that the committee should move in the direction of recommending a single funding bucket. He noted that the public was completely cynical about the funding system, as evidenced by I-695, and if the Commission came up with nothing but minor changes, the whole effort would be discredited. Another member said the committee should keep what works of the existing system, but recommend new ideas where they can improve the system. It was also offered that the system does work well now, and should be changed only if new ideas make it run better. Another member said changing the funding system would require a huge undertaking.

There was discussion about raising the gas tax. It was noted that it has been raised 5 times in the past 25 years. It is difficult to garner the number of votes needed, due to voting blocks that tend to vote "no" on a gas tax increase. A member voiced support for the cluster-based framework as an extension of the corridor approach being suggested by the Transportation Commission. A member said the committee should prioritize the most important areas, and funnel money to those areas. A member of the public cited TIB as a model for flexibility in delivering funding.

The committee turned to the preliminary findings from this draft issue papers and suggested some changes. Finding 3 should be amended to read "When a lack of agreement occurs on priorities among adjacent jurisdictions, it results in…." In Finding 4, committee members said the second sentence didn't logically follow the first and should be stricken. The committee added a new finding, to the effect of "There is insufficient funding in the transportation system."

Comments on the paper itself were offered: on page 9, under City and County Funding Sources, it should be clarified that these authorities are the "maximum allowed." On page 10, under County Funding Sources, the second line should read, "The county road levy rate of up to $2.25 per $1,000…, and in the next paragraph, the "In addition to the 106% limit" language in the first line should be eliminated.

The committee adjourned at 11:50 am.